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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Mr. Ronald L. Bittner
President & Chief Executive Officer
Rochester Tel
Rochester Tel Center
Rochester, New York 14646-0700

92-101/

Mr. Bittner:

Many thanks for your letter of November 23 about price cap treatment of the changes in accounting for Other Postretirement Employee Benefits (OPEBs).

I'm glad to have your views on how the Commission should treat these accounting changes under price caps. Please be assured that I will take those views into account as we take up this question.

Sincerely yours,

Ervin S. Duggan
Commissioner

Rochester Tel Center
Rochester, New York 14646-0100

716 777 8007

Ronald L. Sittner
President & CEO



November 23, 1992

BY OVERNIGHT MAIL

Honorable Ervin S. Duggan
Commissioner
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Dear Commissioner Duggan:

I was just informed through our contacts at USTA, who held an ex parte meeting with the Commissioner's Legal Advisors on November 18th, that the Commission's pending order on the treatment of SFAS-106 may completely deny Price Cap LECs any exogenous treatment of this expense. Such a ruling would, I believe, come as a complete surprise to every Price Cap LEC, who have long believed that mandatory accounting changes are one category of externally imposed changes that qualify under the Commission's rules for exogenous cost treatment. Indeed, even AT&T, the LEC industry's largest customer, did not object in principle to exogenous treatment of this mandated accounting change for Price Cap LECs.

Rochester Telephone was one of only three Local Exchange Carriers who voluntarily chose to adopt the Commission's Price Cap form of incentive regulation. We did so because we felt that our companies possess the resources and skills necessary to run efficient telephone operations, and that both our customers and shareowners would benefit if we were given increased control over our prices and profitability. Our adoption of Price Cap regulation, however, also assumed that we would be able to adjust our indices and rates for externally imposed cost changes over which we have little or no control. Although the Commission's Price Cap Order could not document every potential cost change that might qualify for exogenous treatment, the Commission's mandate that we adopt SFAS-106 for Other Post-Retirement Benefits is a clear example of what was intended to be treated as an exogenous expense in the Price Cap Order.



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The Commission's primary test as to whether a particular cost change should be given exogenous treatment is the degree of control that the LEC exercises with respect to that cost. The majority of the incremental OPEB expenses that LECs must now recognize on their financial statements represents the recognition of benefits earned in prior years. Clearly, LECs have absolutely no control over the change in the accounting recognition of these costs that has been required by the Commission.

From an equity perspective, exogenous cost treatment is also warranted. Under prior rate-of-return regulation, Price Cap LECs were restricted to recovering only those OPEB costs which were permitted to be recognized as accounting costs at that time by the Commission, even though it was known that these costs fell far short of the true economic liability being incurred by LECs. To now prohibit the Price Cap LECs from being able to adjust their rates in line with the new accounting standards, while appropriately permitting current Rate-of-Return LECs the opportunity to adjust their prices, would be a distinction without a basis. A Commission decision to disallow exogenous treatment of OPEB costs by Price Cap LECs would seriously undermine the Commission's desire to have other LECs adopt incentive-based regulation.

I sincerely hope that your decision regarding the exogenous treatment of OPEB costs is made with appropriate recognition of the true spirit and intent of Price Cap regulation.

Very truly yours,

Ronald L. Bittner
President and CEO